CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 21, 1999

H.R. 1401
National Defense Authorization Act for Fiscal Year 2000

As ordered reported by the House Committee on Armed Services
on May 19, 1999

SUMMARY

H.R. 1401 would authorize appropriations totaling $291.0 billion for fiscal year 2000 for the military functions of the Department of Defense (DoD) and the Department of Energy (DOE). It also would prescribe personnel strengths for each active duty and selected reserve component of the U.S. armed forces. CBO estimates that appropriation of the authorized amounts for 2000 would result in additional outlays of $287 billion over the 2000-2004 period. In addition, the bill contains provisions that would raise the costs of discretionary defense programs over the 2001-2004 period by about $2.6 billion.

The bill contains provisions that would affect direct spending, primarily through changes to military retirement programs. We estimate that the direct spending resulting from provisions of H.R. 1401 would total about $7 million over the 2000-2004 period and $186 million over the 2000-2009 period. Over the long run, the provisions to change the military retirement system would raise the costs of that entitlement program by about 6 percent. Under current law, spending for that program will amount to about $32 billion in 1999. Because it would affect direct spending, the bill would be subject to pay-as-you-go procedures.

One section of the bill may contain an intergovernmental and private-sector mandate, but the costs of the mandate would not exceed thresholds established by the Unfunded Mandates Reform Act (UMRA). UMRA excludes from application of the act legislative provisions that are necessary for the national security or for the ratification or implementation of international treaty obligations. CBO has determined that all other provisions of this bill either fit within that exclusion or do not contain private-sector or intergovernmental mandates as defined by UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1401 is shown in Table 1, assuming that the bill will be enacted by October 1, 1999.

BASIS OF ESTIMATE

Authorizations of Appropriations

The bill would authorize specific appropriations totaling $291.0 billion in 2000 for military programs of DoD and DOE (see Table 2). These costs would fall within budget function 050 (national defense). The estimate assumes that the amounts authorized will be appropriated

TABLE 1. BUDGETARY IMPACT OF H.R. 1401 AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON ARMED SERVICES (By fiscal year, in millions of dollars)

	1999	2000	2001	2002	2003	2004
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Defense Programs						
Budget Authority [a]	279,421	0	0	0	0	0
Estimated Outlays	273,507	93,107	34,029	13,420	5,808	2,850
Proposed Changes						
Authorization Level	0	291,031	0	0	0	0
Estimated Outlays	0	192,959	61,061	21,367	7,880	3,462
Spending Under H.R. 1401 for Defense Programs						
Authorization Level [a]	279,421	291,031	0	0	0	0
Estimated Outlays	273,507	286,066	95,090	34,787	13,688	6,312
DIRECT SPENDING						
Estimated Budget Authority	0	1	2	0	2	2
Estimated Outlays	0	1	2	0	2	2

NOTE: Costs of the bill would fall under budget function 050 (national defense), except for certain items noted in the text.

a. The 1999 level is the amount appropriated for programs authorized by the bill.

TABLE 2. SPECIFIC AUTHORIZATIONS IN THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2000, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON ARMED SERVICES (By fiscal year, in millions of dollars)

Category	2000	2001	2002	2003	2004
Military Personnel					
Authorization Level	72,116	0	0	0	0
Estimated Outlays	69,520	1,587	505	144	0
Operation and Maintenance					
Authorization Level	106,008	0	0	0	0
Estimated Outlays	79,667	20,598	3,202	1,324	545
Procurement					
Authorization Level	55,599	0	0	0	0
Estimated Outlays	13,122	18,995	13,158	5,229	2,438
Research, Development, Test, and Evaluation					
Authorization Level	35,836	0	0	0	0
Estimated Outlays	19,638	13,332	2,012	547	142
Military Construction and Family Housing					
Authorization Level	8,590	0	0	0	0
Estimated Outlays	2,488	3,173	1,716	653	324
Atomic Energy Defense Activities					
Authorization Level	12,285	0	0	0	0
Estimated Outlays	7,903	3,336	835	11	10
Other Accounts					
Authorization Level	523	0	0	0	0
Estimated Outlays	274	93	59	32	23
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	280	-60	-120	-60	-20
Total					
Authorization Level	290,957	0	0	0	0
Estimated Outlays	192,892	61,054	21,367	7,880	3,462

for 2000. Outlays are estimated based on historical spending patterns. In addition, H.R. 1401 would authorize appropriations of $80 million for the Maritime Administration (function 400) and $68 million for the Armed Forces Retirement Home (function 700).

The bill also contains provisions that would affect various costs, mostly for personnel, that would be covered by the fiscal year 2000 authorization and by authorizations in future years. Table 3 contains estimates of these amounts. In addition to the costs covered by the authorizations in the bill for 2000, these provisions would raise estimated costs by $2.6 billion over the 2001-2004 period. The following sections describe the estimated authorizations shown in Table 3 and provide information about CBO's cost estimates.

Multiyear Procurement Programs. In most cases, purchases of weapon systems are authorized annually, and as a result DoD negotiates a separate contract for each annual purchase. In a small number of cases, the law permits multiyear procurement; that is, it allows DoD to enter into a contract to buy specified annual quantities of a system for up to five years. In those cases DoD can negotiate lower prices because its commitment to purchase the weapons gives the contractor an incentive to find more economical ways to manufacture the weapon, including cost-saving investments. Funding would continue to be provided on an annual basis for these multiyear contracts, but termination costs would be covered by an initial appropriation.

H.R. 1401 would authorize DoD to enter into multiyear contracts for six weapon systems: Javelin missiles, Bradley fighting vehicles, Apache Longbow attack helicopters, upgrades to the Abrams main battle tank, Wolverine heavy assault bridges, and F/A-18 E/F aircraft. The Javelin missile and Bradley fighting vehicle contracts would cover four years of production while contracts for the F/A-18E/F, Apache Longbow helicopters, Abrams tank upgrades, and Wolverine bridges would cover five years.

CBO estimates savings from buying the five Army systems with multiyear contracts would total $870 million, an average of $174 million a year, over the 2000-2004 period. Funding requirements through 2004 would total $7.2 billion instead of the $8.0 billion needed under annual contracts. Multiyear procurement of the Javelin would raise costs in 2000 because that system did not receive advance procurement funding in 1999 in anticipation of multiyear procurement starting in 2000. Similarly, CBO estimates that the Navy would save $706 million, or about $140 million a year, through 2004 under a multiyear contract for the F/A-18E/F, which under current law would cost about $15.8 billion over that period. Those estimates are based on the assumption that annual production will be at the levels planned by the Administration for each of the six programs.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN H.R. 1401 AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON ARMED SERVICES
(By fiscal year, in millions of dollars)

Category	2000	2001	2002	2003	2004
Multiyear Procurement					
Javelin Missile System	33	-106	-73	-84	-9
Bradley Fighting Vehicle	-1	-31	-36	-33	0
Apache Longbow Helicopters	-2	-77	-97	-112	-96
Tank Upgrades	0	-29	-29	-30	-19
Wolverine Bridge	0	-7	-8	-9	-16
F/A-18 E/F Aircraft	-148	-163	-166	-124	-106
Military Endstrengths					
Department of Defense	-511	-531	-551	-570	-589
Coast Guard Reserve	74	0	0	0	0
Grade Structure	1	1	1	1	1
Compensation and Benefits (DoD)					
Military Pay Raise in 2000	204	278	287	297	306
Pay Table Reform	195	809	838	864	893
Enlistment/Reenlistment Bonuses (active)	266	182	91	59	35
Aviation and Nuclear Special Pay	40	43	33	25	20
Various Bonuses (Reserve)	45	52	37	26	18
Special Pay for Nurses	7	3	0	0	0
Increases in Special Pays	34	55	50	45	43
New Special Pays	52	53	54	55	55
Travel and Transportation Allowances	21	21	22	22	22
Reserve Components	5	5	6	6	6
Military Academies and Education Benefits	15	15	15	15	15
Other Military Benefits	22	22	22	22	22
Military Retirement					
Changes to REDUX System	443	596	1,136	1,137	1,187
Payments to Disabled Retirees	45	45	45	45	46
Other Provisions					
Acquisition Workforce	-28	-492	-1,047	-1,146	-1,184
Agency Retirement Contributions	2	3	3	4	4
DOE Separation Incentives	0	0	6	0	0
Domiciliary and Custodial Care	7	7	7	7	7
Bill Total					
Estimated Authorizations	821	754	646	523	663

NOTES: For every item in this table except one, the 2000 impacts are included in the amounts specifically authorized to be appropriated in the bill. Those amounts are shown in Table 2. Only the authorization of endstrength for the Coast Guard Reserve is additive to the amounts in Table 2.

Endstrength. The bill would authorize active and reserve endstrengths for 2000 and would lower the minimum endstrength authorization under permanent law. The authorized endstrengths for active-duty personnel and personnel in the Selected Reserve would total 1,385,432 and 865,298, respectively. The bill would specifically authorize appropriations of $72.1 billion for military pay and allowances in 2000. Current law sets the minimum endstrength for active-duty personnel at 1,395,698 but the bill would lower that figure for future years to 1,384,806. The reduction in authorized personnel would decrease future costs by more than $500 million annually.

Also the bill would authorize an endstrength of 8,000 in 2000 for the Coast Guard Reserve. This authorization would cost about $74 million and would fall under budget function 400, transportation.

Grade Structure. Section 414 would change the grade structure of active duty personnel in support of the reserves. This change would not increase the overall endstrength, but would result in more promotions. The provision would cost about $1 million a year.

Compensation and Benefits. H.R. 1401 contains several provisions that would affect military compensation and benefits.

Pay Raises. Section 601 would raise basic pay by 4.8 percent at a total cost of about $2.0 billion in 2000. Because this pay raise would be 0.5 percent above what is projected under current law, CBO estimates that the incremental costs would be $204 million in 2000 and average about $290 million over the next four years.

In addition to the across-the-board pay raise, section 601 would authorize additional pay raises for individuals with specific ranks and years of service. These raises would become effective after July 1, 2000. They would cost $196 million in 2000 and about $900 million annually by 2004.

Expiring Bonuses and Allowances. Several sections would extend for one year DoD's authority to pay certain bonuses and allowances to current personnel. Under current law, these authorities are scheduled to expire in December 1999, or three months into fiscal year 2000. The bill would extend these authorities through December 2000. CBO estimates that payment of enlistment and reenlistment bonuses for active duty personnel would cost $266 million in 2000 and $182 million in 2001. The cost of extending special payments for aviators and nuclear-qualified personnel would be $40 million in 2000 and $43 million in 2001. Payment authorities for various bonuses for the Selected and Ready Reserve would cost $45 million in 2000 and $52 million in 2001. We estimate that authorities to make special payments to nurse officer candidates, registered nurses, and nurse anesthetists would cost $7 million in 2000 and $3 million in 2001. Most of these changes would result in additional, smaller costs in subsequent years because payments are made in installments.

Increases in Special Pays and Bonuses. Sections 614 through 621 would revise certain eligibility criteria and pay rates for personnel with special skills. Under those provisions, pay would be increased for aviators, nuclear-qualified naval officers, servicemembers performing diving duty, and individuals with proficiency in foreign languages. In addition, the maximum payments for enlistment and reenlistment bonuses for personnel on active duty would increase and limits on receiving only one hazardous duty incentive pay would be removed. Those changes would cost $34 million in 2000 and larger amounts in subsequent years.

New Special Pays. Sections 622 through 625 would authorize four new special compensation categories. These include a retention bonus for special warfare officers, continuation pay for surface warfare officers, and incentive pay for career enlisted flyers, which would replace a similar pay for certain enlisted personnel. Continuation pay would also be extended to personnel serving as judge advocates. Additional costs for these provisions would total $52 million in 2000 and similar amounts in subsequent years.

Travel and Transportation Allowances. Section 631 would require DoD to cover the lodging expenses of reservists on training duty when they are not otherwise entitled to travel and transportation allowances and when government housing is not available. Because the services have already been providing lodging as needed, CBO attributes minimal additional costs to this provision. Section 632 would allow enlisted personnel reporting to their first permanent duty station to receive temporary lodging expenses. Estimated costs for increased lodging expenses would total about $21 million annually.

Reserve Components. Several provisions would affect servicemembers in the reserves. Section 512 would authorize the Secretary of Defense to order a member of the reserves to active duty for the purpose of receiving authorized medical care, receiving a disability evaluation, or participating in a health care study. Costs would total about $1 million a year. Section 518 would authorize a financial assistance program for certain members of the Marine Corps Reserves at an estimated cost of $4 million annually.

Military Academies and Education Benefits. Section 531 would increase DoD's authority to waive some of the reimbursement that it receives for the expenses for foreign students to attend the military academies. CBO estimates additional waivers would total $3 million a year. Section 546 would increase the monthly subsistence allowance for senior ROTC cadets selected for advanced training. The estimated costs are $12 million annually.

Other Military Benefits. The bill contains several additional provisions pertaining to pay and benefits.

Overseas Special Supplemental Food Program. The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), operated by the Food and Nutrition Service of the Department of Agriculture, provides food assistance and nutrition services to pregnant and post-partum women and children up to five years of age who meet income and nutrition eligibility guidelines. The bill would require DoD to operate a similar program for personnel living overseas. CBO estimates that about 5,100 women and children would participate in an average month under the program, increasing discretionary costs by $2 million each year.

The bill would require DoD to use the eligibility criteria that apply to the WIC program, to the extent practicable, with the specific exception that the value of in-kind housing benefits be included in calculating a household's income. Based on data from DoD on personnel living overseas, CBO assumes that about 4,800 children under the age of five would meet the requirements for age and household income. Assuming that 1,400 of the eligible children are up to one year old, program data suggest that 1,900 pregnant, post-partum, and breast-feeding women would be eligible based on income. Thus, a total of 6,700 women and children would meet the income criteria for assistance. CBO estimates that about 80 percent of those 6,700 individuals would be determined to be at nutritional risk, and assumes that 95 percent of those eligible would participate. We therefore project a total of 5,100 participants in an average month.

CBO estimates that the average monthly food cost would be about $28 for each participant, based on a DoD estimate of the cost of an average WIC food package in military commissaries, adjusted for inflation. In addition to supplemental foods, participants would receive nutrition services. Nutrition services and other administrative costs are typically about 25 percent of the total cost in WIC. Based on the estimated food costs, administrative costs would be about $7 per month per participant.

Other Provisions. Section 566 would increase funding limitations for the National Guard Challenge Program. Section 671 would allow payment of accrued leave to servicemembers upon immediate reenlistment. Section 675 would allow the Secretaries of the military departments to waive tuition charges for servicemembers deployed in a contingency operation. CBO estimates the cost of these increased authorities would total about $20 million a year.

Military Retirement. H.R.1401 contains provisions that would increase retirement benefits for various military retirees.

Changes to the REDUX System. The bill would increase retirement benefits for members who entered the service after July 31, 1986, and are covered under the system known as REDUX.

Background. The Military Retirement Reform Act of 1986 (REDUX) governs the retirement of military personnel who initially entered the armed forces after July 31, 1986. Under REDUX a retiree's initial annuity ranges from 40 percent to 75 percent of the individual's highest three years of basic pay. Retirees with 20 years of service will receive 40 percent, and the fraction will grow with each additional year of service and reach the maximum at 30 years of service. When the retiree is 62 years old, the annuity is raised in most cases to equal 2.5 percent of the average of the highest 36 months of basic pay for each year of service up to a maximum of 75 percent. Also, under REDUX, retirees receive annual cost-of-living adjustments (COLAs) equal to the change in the Consumer Price Index (CPI) less 1 percentage point. When the retiree reaches age 62, the annuity is raised to reflect all of the CPI growth until that point, but thereafter annual COLAs continue to equal the CPI less one percentage point.

Current law provides two different formulas for other individuals who become eligible for a nondisability retirement benefit but are not covered by REDUX. Military personnel who first became members of the armed forces before September 8, 1980, receive retired pay equal to a multiple of their highest amount of basic pay; the multiple is 2.5 percent for every year of service up to 75 percent. Retirees who first became members of the armed forces between September 8, 1980, and July 31, 1986, receive retired pay based on the average of the highest 36 months of basic pay and the multiplier of 2.5 percent for each year of service (the so-called high three plan). Annuities for both of these groups are fully adjusted for changes in the CPI.

Changes Under H.R. 1401. Under section 642, members who under current law would retire under REDUX would face a choice upon reaching 15 years of service. They could elect to receive a lump-sum bonus of $30,000 and retire under the REDUX plan or they could forgo that payment and upon retirement receive annuities under the high three plan. Section 641 would establish a floor for COLAs under both of those options--1 percent for those retiring under REDUX and 2 percent for those selecting the other option.

Accrual Costs. Prior to 2009 the primary budgetary impact would stem from the payments that DoD would make to the military retirement trust fund. The military retirement system is financed in part by payments from appropriated funds to the military retirement trust fund based on an estimate of the system's accruing liabilities. Repealing REDUX would increase payments from the military personnel accounts to the military retirement fund (a DoD outlay in budget function 050) to finance the increased liability to the fund resulting from additional years of service under a more generous system.

CBO estimates that the resulting increase in discretionary spending from the accrual payments would be $443 million in 2000 and would average about $600 million by 2004. The costs to DoD would increase annually by projected increases in basic pay. Accrual charges are reestimated by DoD every year depending upon endstrengths, projected years of service at the time of retirement, grade structures, and projected rates of military pay raises, inflation, and interest rates. CBO's assumption about these factors are consistent with the ones currently used by the DoD's actuaries. These estimates assume that annual pay raises are between 3 and 4 percent, the CPI grows at 3.5 percent a year over the long term, and the trust fund's holdings of Treasury securities earn interest at a rate of 6.5 percent annually.

Lump-Sum Payments. In addition to the higher accrual charges, CBO estimates that DoD would spend about $500 million a year for lump-sum bonuses, assuming 50 percent of enlisted personnel and about 40 percent of officers would elect to receive the lower annuity in retirement. That estimate is based on DoD's experience with two buyout programs in recent years and the distribution of years of service among military personnel. Those expecting to retire with long terms of service and a relatively high REDUX annuity would tend to take the bonus. Those who expect to retire with 20 years of service would be more likely to take the other option. The members who would be affected by this provision entered service in 1986; thus, they would not be eligible for the lump-sum payment until 2001.

Direct Spending. These provisions would raise direct spending for annuities by about $185 million over the 2000-2009 period, as discussed below with other provisions affecting direct spending.

Payments to Disabled Retirees. Under current law, disabled veterans who are retired from the military, the Coast Guard, the Public Health Service (PHS), or the National Oceanic and Atmospheric Administration (NOAA) cannot receive both full retirement annuities and disability compensation. Such veterans usually forgo a portion of their retirement annuity equal to the nontaxable veterans' benefit. Section 674 would allow retirees to receive additional payments if they receive nondisability annuities, completed at least 20 years of service, and have service-connected disabilities rated as 70 percent or greater within four years of their retirement.

The potential costs of section 674 depend on the number of beneficiaries, their disability levels, and the benefit amounts. CBO estimates that in 1999 about 20,000 retirees meet the criteria under the bill, assuming that 80 percent of the estimated 25,000 retirees who meet the other criteria had their disability rated as at least 70 percent within four years of retirement. Nearly all beneficiaries would be military retirees, but about 300 retired members of the Coast Guard, NOAA, and PHS would be eligible for payments.

CBO projects the potential caseload for future years using expected mortality rates and expected rates of growth in the population of new beneficiaries. On this basis, we expect that the number of beneficiaries would change only slightly over the next several years.

CBO estimated the distribution of those beneficiaries among disability levels using data from a report prepared by the General Accounting Office (GAO) in 1995. According to information from the Department of Veterans Affairs, veterans with disabilities rated 70 percent or greater generally receive that rating soon after leaving military service. Veterans with service-connected disabilities may have their ratings reevaluated over time, but those veterans whose ratings are increased usually have low-rated disabilities. Also, veterans with psychiatric disabilities may have highly rated disabilities, but most reevaluations of their disabilities lead to reductions rather than increases.

The bill would define the additional benefit as follows:

- $300 per month for a retiree whose disability is rated as total,
- $200 per month for a retiree whose disability is rated as 90 percent, and
- $100 per month for a retiree whose disability is rated as 70 percent or 80 percent.

CBO estimates that the provision would cost about $45 million in 2000 and $226 million over the 2000-2004 period, assuming that the bill would be enacted and implemented by October 1, 1999. The benefits would be paid out of discretionary appropriations for pay and benefits, and the bill specifies how each Secretary would allocate funding that is insufficient to pay all eligible beneficiaries.

Reductions in Defense Acquisition Workforce. The bill would limit the size of the acquisition workforce and would require a reduction of 50,000 military and civilian personnel during fiscal years 2000 and 2001. Because the total number of military personnel is determined by endstrength requirements, CBO assumes that the provision would lead to their transfer to other activities rather than separation from the services. Separations of civilian personnel, who comprise about 80 percent of the acquisition workforce, would account for the remaining reductions. CBO estimates that these changes in the acquisition workforce would save $28 million in 2000, $492 million in 2001, and over $1.1 billion a year once the reduction is fully accomplished. Savings would be relatively small during the first few years because the cost of separation payments offsets most of the initial savings in salaries. Savings accumulate more rapidly once employees are off the payroll for a full year and the government no longer pays separation costs.

Agency Retirement Contributions. Section 522 of the bill would change the early retirement provisions that apply to dual status military technicians who are covered by the

Federal Employees' Retirement System (FERS) and lose their membership in the Selected Reserve. Under current law, these technicians can retire early if they are at least 50 years old and have at least 25 years of service. The bill would allow technicians hired after February 10, 1996, to retire early if they are at least 50 years old and have 20 years of service, or at any age if they have 25 years of service.

Under FERS, combined employee and agency retirement contributions to the Civil Service Retirement and Disability Fund (CSRDF) are equal to the normal cost of providing retirement benefits. The current normal cost for dual status military technicians is 11.9 percent of basic pay. The technicians contribute 0.8 percent of basic pay, and DoD pays the rest. According to the Office of Personnel Management, section 522 would increase the normal cost for affected technicians to 12.6 percent of basic pay by allowing additional technicians to take early retirement. Since employee contributions would be unchanged, DoD's contribution for these technicians would increase from 11.1 to 11.8 percent of basic pay.

According to DoD, about 60,000 technicians are also members of the Selected Reserve. Based on information from the National Guard and the Reserves, CBO estimates that the number of technicians that would be affected by this provision would rise from about 10,000 in 2000 to 15,000 by 2004. CBO estimates that the additional DoD retirement contributions for these technicians would total $16 million over the 2000-2004 period.

DOE Separation Incentives. Under current law, the Department of Energy (DOE) has the authority to offer buyouts to employees who voluntarily retire or resign. Section 3162 of the bill would extend this authority, which is scheduled to expire at the end of calendar year 2000, through calendar year 2001. DOE would be required to make two payments for each employee who accepts a buyout: a lump-sum payment to the employee of up to $25,000 and a deposit into the Civil Service Retirement and Disability Fund (CSRDF) equal to 26 percent of the employee's final pay.

Because DOE plans to use this buyout authority between October and December 2001, the payment of the separation incentives would occur in fiscal year 2002. According to DOE, approximately 150 employees are projected to accept a buyout. Based on past buyout experience at DOE, CBO assumes that each employee would receive a buyout payment of $25,000. CBO estimates that total DOE payments for separation incentives, including the deposits to the CSRDF, would total $6 million in 2002.

Military Health Care Programs and Benefits. Title VII contains several provisions that would affect DoD health care and benefits, although only a few would have a budgetary impact.

Domiciliary and Custodial Care. Section 703 would authorize DoD to continue to waive the custodial care exclusion under TRICARE for certain individuals. The beneficiaries would be those who were receiving coverage for ongoing custodial care when the benefit was reduced significantly under a new program. According to DoD, this provision would not affect more than 25 people. CBO estimates that the average annual cost of the provision would be about $300,000 per person and that section 703 would cost about $7 million a year.

Other Health Care Provisions. The bill contains two other health care provisions that could have budgetary impacts that CBO cannot estimate. Section 721 would require the Secretary of Defense to establish a uniform formulary of pharmaceutical agents by October 1, 2000. Although savings from economies of scale in purchasing drugs and other efficiencies are possible, CBO cannot estimate the budgetary impact of a uniform formulary because it has no information about how the new formulary would compare with the system DoD operates under current law.

Section 722 would alter the criteria used by DoD to calculate charges to third-party insurers. Although CBO cannot estimate the precise budgetary impact of this provision, it expects the impact would be relatively small because of offsetting effects of the provision. This change could raise some of DoD's charges and consequent receipts, but it could also increase the likelihood that third-party insurers would deny claims from DoD.

Long-Term Charter of Naval Vessels. Section 1014 would authorize the Secretary of the Navy to enter into long-term commitments to lease newly built surface vessels. The contract may include an option for the Navy to purchase the vessel. Contracts under this section would have to be specifically authorized in subsequent legislation. Under current practices, a contract authorized under this section would probably be considered either a capital lease or a lease-purchase arrangement. As a result, the subsequent authorization would be scored with a large amount of budget authority in the first year. If the arrangement is a lease purchase, the budget would record all outlays over the expected construction period.

Direct Spending

The bill contains provisions that would affect direct spending primarily through changes to military retirement programs. We estimate that the direct spending from provisions of H.R. 1401 would total about $186 million over the 2000-2009 period.

Military Retirement. Sections 641 and 642 (see the discussion above) would increase direct spending from the military retirement trust fund by $1 million in 2000 and by about $185 million over the 2000-2009 period. The outlay impact before 2006 is primarily due to higher cost-of-living allowances for individuals who receive a disability annuity. Starting in 2006 the impact is almost all due to regular retirements. In the long run, direct spending for military retirement would be about 6 percent higher than under current law for a program that costs about $32 billion in 1999.

Property Transactions. The bill contains various provisions that would authorize property transactions involving both large and small parcels of real estate.

Ford Island. The bill would provide the Navy with a variety of means to develop Ford Island, which is located in Pearl Harbor. Under section 2802, the Navy could sell and lease its excess Hawaiian property in exchange for cash and services. But because the use of cash proceeds would require appropriation action, the Navy would probably enter into barter arrangements and enhanced-use leases that would allow it to obtain construction and maintenance services that could have a cash value up to about $500 million.

Direct spending would increase to the extent that the Navy would sell its excess property under current law. In that case, the bill would result in forgone receipts to the Treasury. If the land was formally declared excess and sold through normal procedures that govern property disposal, the receipts could total tens of millions of dollars or more. But because the Navy has no incentive under current law to formally declare that its valuable real estate is excess to its needs, CBO believes that the property is unlikely to be sold under current law.

Forgone Receipts from Other Provisions. Section 2832 would convey an Army Reserve Center to the City of Kankakee, Illinois. The Army has declared that property excess to its needs. Thus, under current law, it would likely be transferred to the General Services Administration and sold. Based on information from the Army, CBO estimates that forgone receipts would total about $1 million in 2001.

Sections 2851 and 2863 would convey land that is being leased to nongovernmental entities. Under current law, receipts from these lease payments are deposited in the Treasury. The loss of receipts from enactment of these provisions would total less than $500,000 annually.

Other Land Transactions. Title XXVIII contains a variety of other provisions that would authorize DoD to convey land at no cost to the recipient. These conveyances would affect both small and large properties, ranging from six acres of docks and facilities in Whittier, Alaska, to 314 acres of land that contain a naval weapons industrial plant near Dallas, Texas.

Some of the property that would be conveyed in title XXVIII has been declared excess by DoD. Under current law, this property is likely to be given to state or local governments. Therefore, CBO estimates these conveyances would not affect receipts. Other parcels--some worth up to several million dollars each--have not been declared excess. Because it is unclear if or when these parcels would be declared excess and sold under current law, CBO has no basis for estimating whether these conveyances would affect receipts.

Still other parcels that would be conveyed by the bill are excess land from prior rounds of Base Realignment and Closure (BRAC). Under current law, DoD can use proceeds from the sale of BRAC properties to offset base closure costs. Thus, the conveyance of these properties would have no net effect on spending. The conveyances would, however, increase the need for future appropriations.

DOE Separation Incentives. As noted previously, section 3162 would extend DOE's authority to offer buyout payments to employees who voluntarily retire or resign. These payments would induce some employees to retire--and begin receiving federal retirement benefits--earlier than they would otherwise. These additional payments would represent direct spending. In later years, annual federal retirement outlays would be lower than under current law because the employees who retire earlier would receive a smaller annuity.

Based on information from DOE, CBO assumed that buyouts under this extended authority would be offered at the beginning of fiscal year 2002, and that 150 employees would accept them. CBO assumes that these buyouts would induce about 40 percent of these employees to retire a year or two earlier. We estimate that the resulting increase in federal retirement benefits would be $2 million in 2002 and $1 million in 2003. In addition, DOE would make $3 million in payments in 2002 to the CSRDF for the employees who accept buyouts. These additional payments would be treated as offsetting receipts, resulting in a net decrease in direct spending of $1 million in 2002.

Waiver of Certain TRICARE Deductibles. Section 712 would allow the Secretary of Defense to waive the TRICARE deductibles for family members of certain reservists and National Guardsmen who are recalled to active duty. Based on the current authority of the Secretary of Defense to call about 33,000 members of the Selected Reserve to active duty to support operations in Kosovo, CBO believes this provision could affect approximately 10,000 families. This estimate assumes that 45 percent of the reservists have other insurance and would not use TRICARE and that 50 percent of the remainder would have dependents who would benefit from this provision, based on data from the 1996 Survey of Retired Military Personnel and the Defense Manpower Data Center, respectively. The current annual deductible for these families is $300. CBO estimates that this provision would reduce collections in fiscal year 2000 by about $3 million. DoD has the authority to spend much of those collections; thus, lower spending would offset most of the forgone collections. However, DoD’s needs for discretionary funding may rise by a like amount. Although it is impossible to predict the extent, frequency, and duration of reserve call-ups, CBO expects the budgetary effects of this provision would be insignificant in most years.

Per Diem for Certain Military Technicians. Section 672 would authorize the Department of Defense to pay a per diem allowance to military technicians serving on active duty without pay outside the United States. The per diem allowance would substitute for the provision of subsistence and housing. Because the provision would be effective as of February 10, 1996, payment of any retroactive allowances would constitute direct spending. CBO cannot estimate the cost of this provision because no accounting of eligible personnel is currently available.

Stockpile Sales. Section 3303 would eliminate two mandated restrictions on the disposal of certain manganese and chromium materials. These restrictions were included in the National Defense Authorization Act of Fiscal Year 1996 (Public Law 104-106). The first restriction would require the manager of the National Defense Stockpile to give a right of first refusal on all such sales to domestic suppliers of those materials. CBO estimates that the repeal of this restriction would have little or no budgetary impact because, even under current law, domestic suppliers were required to pay market prices for the materials. The second restriction would delay the sale of high-carbon manganese ferro alloy until all lower carbon grades are disposed. CBO estimates that the repeal of this restriction would have no budgetary impact because there are no lower carbon grades of manganese ferro alloy remaining in the stockpile inventory.

Other Provisions. The following provisions would have an insignificant budgetary impact:

- Section 801 would allow DoD to sell holdings of coke and coal and to spend the proceeds of those sales.

- Section 522 of the bill would impose mandatory retirement rules for certain military technicians in the Reserves and would allow other technicians to retire early; CBO estimates that this provision would have no impact on the federal budget during the 2000-2009 period.

- Section 652 would extend eligibility for limited survivor annuities to surviving spouses of reserve members who died before September 21, 1977, and had met all the requirements for retirement except reaching their 60th birthday.

- Section 655 would allow members with over eight years active duty or 15 years reserve service to receive a disability retirement or separation if they are separated from the service due to a pre-existing condition. Costs would be insignificant in the short run and would amount to approximately $10 million a year after 23 years, as certain reservists reach 60 years of age.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in direct spending that would result from H.R. 1401 are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	1	2	0	2	2	2	3	17	54	103
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 722 of the bill would allow the Department of Defense to bill third-party insurers at “reasonable charges” for care provided at a facility of the uniformed services, rather than what current law refers to as “reasonable costs.” That provision may impose a private-sector and intergovernmental mandate on insurers and health care plans because they would be required to pay charges for health care above those that are currently charged by the government. The costs of the provision would exceed neither the private-sector threshold ($100 million in 1996, adjusted annually for inflation) nor the intergovernmental threshold ($50 million in 1996, adjusted annually for inflation) specified in UMRA.

UMRA excludes from application of the act legislative provisions that are necessary for the national security or the ratification or implementation of international treaty obligations. CBO has determined that all other provisions of this bill either fit within that exclusion or do not contain private-sector or intergovernmental mandates as defined by UMRA.

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- Military Construction and Other Defense: Kent Christensen
- Military and Civilian Personnel: Jeannette Deshong
- Stockpile Sales and Atomic Energy Defense Activities: Raymond Hall

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